

WEDNESDAY 25 FEBRUARY 2009

Present

Arran, E.
Brooke of Alverthorpe, L.
Brookeborough, V.
Caithness, E.
Dundee, E.
Jones of Whitchurch, B.
Livsey of Talgarth, L.
Palmer, L.
Sewel, L. (Chairman)
Sharp of Guildford, B.
Ullswater, V.

Witnesses: **Mr David Baldock**, Executive Director, and **Dr Tamsin Cooper**, Deputy Head of the Agriculture and Rural Development Programme, Institute for European Environmental Policy, examined.

Q187 Chairman: Thank you very much indeed for finding the time to come and help us with this inquiry. I think you are in many ways the best placed people to give us assistance. This is a formal evidence-taking session of the Committee so a full note will be taken of the evidence. You will receive a transcript in a matter of days, hopefully, and be able to correct it and rub out any errors that have slipped in. This is being webcast so there is a slight possibility, a very slight possibility, that someone somewhere may be hearing what you say. That should not deter you in any way shape or form because we have never received any evidence that anybody does listen to us. The last thing is that you have a list of the interests of the members of the Committee. Would you like to start by making a general introductory statement or would you prefer to proceed with the questions and answers?

Mr Baldock: I think we will make a short introductory statement if that is helpful. Thank you for asking us and I am sorry we were not able to come on a previous occasion. I am

David Baldock. I am the Director of the Institute. This is Dr Tamsin Cooper, who is one of the leaders of the Agricultural Policy Group and she was the main author of the report we both worked on with quite a large European team. We are an independent institute based in London and Brussels. We do a lot of work on agriculture policy as well as on environment policy. Some of that is for the European Commission, including this LFA evaluation study. It is not mentioned here but we also do quite a lot of other work around the subject. We have been involved in LFA policy for some time but this morning we will try to base any comments we make principally on the evaluation since that is the main point, but, as I say, that is not our only interest in this whole area of policy. We are quite actively engaged in discussions about where the future of the CAP should go and in particular how environment and agriculture issues should be addressed at a European level insofar as that is possible.

Q188 Chairman: Be careful: you might be here all week! Thanks very much. In your evaluation report you argued that LFA payments are intended to provide a contribution to the additional costs of agricultural activity in LFAs in order to secure the continuation of appropriate agricultural management and ultimately the public goods that flow from that management. Could you elaborate on that view and how you justify that approach and how it differs from other approaches? I will give you an example based on the evidence we have received, which, at its crudest, is, “It’s our money and we want to keep it”, to, “LFA payments are an essential element of income support to help farmers continue to exist and to continue to have sheep on the hill and if we do not have LFA payments the sheep will disappear and the farmers will disappear”, so it is an income support measure rather than a means of delivering public goods.

Mr Baldock: We spent quite a lot of time trying to think through what the objectives of the LFA measure were and we were very much guided by what it says in the current regulation, which is quite different from the original directives which date back to 1975, so one can see a

progression over time in what the intention of the Less Favoured Areas measure is. That has not always been reflected in the way that Member States, farmers and other stakeholders see the purpose of the measure, so I think a gap has arisen between the evolution of the policy on the one hand as expressed in the regulation and on the other how many people see it on the ground. The logic, as we see it, is that the purpose of the regulation now is to maintain the countryside. Insofar as that should be achieved by maintaining agriculture, in other words, large parts of the uplands, the less advantaged areas, maintaining the countryside as we understand it is dependent on agricultural management, and at the same time the measure should support sustainable agriculture, not any kind of agriculture. Because agriculture is inherently associated with a number of positive environmental benefits, including landscape, biodiversity, watershed management, fire prevention, et cetera, in different European contexts, there is some logic in maintaining agricultural management rather than letting any other kind of management take over. If you accept that logic you say, “We need to maintain the farming, we need to provide sufficient aid to compensate farmers for the conditions in which they are trying to maintain that management”. What follows from that is that we need to provide a payment which is in some way related to the scale of the disadvantage. The measure then has a logic but at the bottom of that logic is the maintenance of the countryside and sustainable farming. We perhaps would distinguish ourselves from the view taken by other people in three or four respects, one being that we would say that the purpose of the scheme is no longer socio-economic, as it used to be. Originally, when I started in this business in 1975, we were talking about keeping people on the land. That is no longer part of the logic of the measure. Secondly, we would say that the environmental logic behind it means that you then have to support appropriate kinds of agriculture in the LFA, not any old form of agriculture; it is a prism through which you look at the agricultural management. Thirdly, we would say that within that general framework you would need to deliver

measures which were sensitive to those environmental requirements so that the delivery of the LFA measure was not simply a matter of maintaining farming by injecting in a certain amount of payment. You are trying to target to some extent your ultimate objectives. We probably would not argue either that you need to have agriculture absolutely everywhere in the LFA. There is room for some discussion about where you need it and where you do not, but we do accept and we agree with the regulation that, certainly from the point of view of landscape and biodiversity, there is a strong case for maintaining agriculture in large parts of Europe, in the context that it is in these marginal areas where we have a lot of the biodiversity left.

Q189 Chairman: The important difference, I suppose, is that you reject the socio-economic argument and you say you have to look at the environmental public goods?

Mr Baldock: Yes.

Q190 Chairman: That is the objective, securing those environmental public goods. Essentially is that a conceptual difference or does it lead to fundamentally different policy approaches?

Mr Baldock: It leads to different policy approaches because if your aims are purely socio-economic – and we are not saying that socio-economic objectives are irrelevant or unimportant; we are saying that is not the purpose of this particular measure – then you are more concerned with keeping a certain density of farm population, perhaps a larger number of small farms, you want to keep your agricultural employment and you would be worried about upstream and downstream sectors associated with agriculture. If it is a land management objective, which is what we are saying, then the focus of the measure is via the land management. You are less concerned by the number of farmers, you are more concerned by the type of agriculture rather than production *per se*, you are more concerned about trying to make sure that you are delivering real public goods and you have some evidence to show that

there is some public good at the end of the day for the money you have spent. I think it is significantly different.

Q191 Chairman: I think that you hinted in your opening comments that many of the recipients of LFA payments perhaps see it more in terms of socio-economic support rather than environmental objective driven.

Mr Baldock: They do and it is very clear that we have not got a consensus amongst stakeholders about the changes that have occurred in the LFA system. If you look back over time there was not perhaps a very vigorous debate at a European level saying that LFA is now changing from a rather socio-economically determined measure into an environmentally driven measure which is seen as WTO Green Box compatible by the Commission and has been aligned with the new rural development package. I think farmers, quite naturally, see it as very much an unchanged approach and Member States have not been particularly vigorous about changing their national delivery mechanisms to follow behind the logic of the changes in the European policy, so there is a bit of a gap between where we have got to at one level and where we have got to at another.

Q192 Lord Brooke of Alverthorpe: Your evaluation found that relatively little farmland in LFA areas in the EU-15 has ceased to be managed by agriculture but highlighted a decline in land management potentially preceding farmland abandonment in several regions of the EU. Could you tell us more about the areas most at risk, the size of these areas, the factors leading to the land use change and the reasons why farmland abandonment should be avoided?

Dr Cooper: As you say, the report indicates that agriculture abandonment is minimal or has been minimal in the Less Favoured Areas of the EU-15. In fact, it is quite difficult to detect land abandonment through data that exist at a European level. We have quite crude proxies and data sets in order to do this. You can do this through aerial photography and you can do it

via the Farm Structure Survey, which gives you a measure of total area of land under utilised agriculture. In our report we used data from the Farm Structure Survey, so at a broad aggregate level there is little indication that the total utilised area has declined, but we picked up structural trends which are some of the precursors to land abandonment in Europe, such as a diminution in the number of farms and certain population criteria. When you look at the literature, there have been a couple of other reports and recent studies that have looked in more detail at these processes of marginalisation and abandonment. What these reports have done is draw together composite indicators of different criteria of abandonment, both physical criteria relating to soil conditions and also socio-economic criteria. What these results show in terms of a geography of abandonment is that you see a prevalence of abandonment particularly in southern Europe. Places like Portugal, Italy, Spain and Greece have very high levels of abandonment, up to eight or nine per cent of the utilised agricultural area. Also, in some of the new Member States in central and eastern Europe is where there is a concentration of agricultural abandonment and decline. In terms of the drivers or the risk factors of abandonment, these play out in different ways in different parts of Europe. There is a temporal and spatial specificity of some of these drivers as they interact. We see that there are social drivers behind land abandonment, there are structural characteristics, such as size of farm, that are important, there are economic drivers and there are also biophysical criteria, and abandonment happens at different scales. You will have it happening at the very micro scale in terms of abandonment of small patches of farmland, and you also see it happening on a much more extensive scale, and this tends to be linked to land use type. In terms of what are the effects of abandonment and what are the impacts, in social and economic terms, these effects tend to be negative. In environmental terms the picture is less straightforward and it depends on the scale of abandonment but also the land use that is being taken out of activity. Just to expand on that point, if there are small patches of arable land that go out of production

in an arable landscape this can have positive environmental effects in the sense that you are adding diversity to the agricultural landscape. Where it has a negative environmental effect is when it tends to be associated with extensive livestock systems, and because of the extensive nature of these systems and the minimal levels of disturbance they tend to be associated with high levels of biodiversity. If those systems cease to be managed you see the encroachment of scrub and juniper and such like, which tends to be in the uplands. This leads to quite severe environmental decline.

Q193 Lord Brooke of Alverthorpe: But there are pluses too?

Dr Cooper: Depending on the scale of the abandonment. If small patches are abandoned in landscapes there can be positive environmental benefits in the sense that it introduces diversity into the landscape.

Q194 Lord Brooke of Alverthorpe: Is anybody doing any research on this?

Dr Cooper: Yes. There are three pieces of work to refer to. The first piece of comprehensive work on agricultural abandonment was conducted in the late 1990s by the Institute for European Environmental Policy; indeed it was a European study. That made the link between abandonment and different types of land use. The second big study is a piece of work that was funded by the Joint Research Centre¹, which is the research arm of the European Commission. They looked at abandonment in three Member States: Poland, France and Spain and they published a report last year which was trying to capture a variety of different land use types, and have come up with concrete figures on the extent of abandonment which range between two and eight per cent. The final piece of work is a prospective study, so it is based

¹ Analysis of Farmland Abandonment and the Extent and Location of Agricultural Areas that are Actually Abandoned or are in Risk to be Abandoned. Pointereau *et al*; 2008, Institute for Environment and Sustainability, Joint Research Centre, EC.

on modelling impacts, and it was conducted by a Dutch team, Floor Brouwer *et al*; 2008 in the Netherlands, and they looked at composite indicators of abandonment across Europe.

Q195 Lord Brooke of Alverthorpe: What is the objective behind the research there? Is it to make the case for environmental abandonment, is it to make the case against it, or is it just to find what it finds and leave others to make the conclusions?

Dr Cooper: These pieces of research are not politically driven, to use “political” in the broader sense. The aim of this research is to understand the complex interaction of different drivers of abandonment and how they play out spatially. There are policy implications of this research but not a prescriptive judgment of whether it is positive or negative *per se*. I think they very much flag up the contingency of the benefits and threats associated with agricultural abandonment.

Chairman: Now you have set the hares running here because everybody wants to come in.

Q196 Viscount Brookeborough: First of all, do you expect land abandonment to increase; secondly, it is accepted that farmers in the Less Favoured Areas are older average ages than those in the lowland areas, so what effect do you think this will have in the near future from the point of view that the economics of European policy since 1974 have meant that there are fewer young people going into agriculture? At what point will it suddenly come to bear on the figures, the fact that there are no following-on farmers?

Mr Baldock: First of all, going back to our previous discussion, we do not really have a consensus about where abandonment would be beneficial or not, so the studies Tamsin has been talking about help to provide a foundation for this in broad terms. Of course, that is very different from saying that in Caithness or Rioja it would be better or worse to have more land in agriculture or forestry or something else. It is not an entirely black and white situation, as you will all know very well. Land does not necessarily go simply from normal use to

abandonment. It may go into forestry, it may go into decline. In the future one of our perspectives would be that, of course, we have had the Single Farm Payment since 2003 and there is an economic incentive to keep land nominally in production because there is a payment on it and that will slow down nominal abandonment all over Europe. On the other hand, you are not incentivised any more to keep livestock particularly, so there could be a lot of actual abandonment because it is no longer cost effective to keep animals even though you are getting a Single Farm Payments. So there will be some tension between the pressures of the policy framework to keep land in production effectively, and the economics going on behind it which could be driving it in quite a different direction. When we look ahead in Europe, therefore, quite a lot will depend on what commodity prices are and the profitability of different sectors. If you look at studies which project large-scale abandonment, they assume that there will be a very low margin per hectare from livestock farming and therefore people will stop livestock farming. On the other hand, we have a lot of evidence that, despite the very low margins, many people carry on livestock farming against the economic logic. There are quite a lot of factors to weigh up.

Q197 Viscount Brookeborough: So although the purpose is, you said, not to keep the people on the land but to keep farming on the land, at what point do you come to the stage where you simply have not got enough people to farm it with any meaningful effect?

Mr Baldock: That is a very good question and the answer will depend a lot on farming circumstances. In many parts of Europe you have still got extremely small holdings, so in principle you could keep a lot of land in production with a great reduction in the number of people working it and you could go more to a UK type of situation, but, of course, in somewhere like Bulgaria they have got a lot of very small farms with terraces and it is not particularly well structured for large-scale landscape forms of agriculture of the type you might have in the uplands in the UK, so people might in fact abandon that land even though

on paper they could merge their holdings and have one much larger holding. You are right: there will be some very real social constraints but you cannot easily deduce exactly where they will fall from looking ahead.

Q198 Lord Palmer: I thought I heard you say that the level of abandonment in some countries is as high as nearly nine per cent. Do you have figures for what the abandonment percentage is in the UK?

Dr Cooper: I do not, I am afraid. The figure of nine per cent comes from this study done by the JRC and that was for Spain. The figure for France is two per cent.

Q199 Chairman: Sorry – this nine per cent and two per cent: what time period is that over?

Dr Cooper: It is 1990 to 2000, so it is a ten-year period, based on Farm Structure Survey data.

Q200 Viscount Brookeborough: Is that of LFA?

Dr Cooper: No, that is of the total UAA (Utilized Agricultural Area).

Q201 Chairman: But that would not include land lost to urbanisation?

Dr Cooper: No. They use a definition of “abandonment” which is land that has ceased to have agricultural activity on it and which has not been transferred to an alternative land use.

Q202 Lord Palmer: Did that ever include set-aside?

Mr Baldock: No, it should not have done.

Lord Palmer: Because that could make quite a big difference.

Q203 Earl of Arran: Is there any evidence yet that this abandonment has started to affect tourism? Is that a concern, that it could?

Dr Cooper: That is a good question. I would have thought the answer is yes. There is a fair amount of evidence that looks at the relationship between agriculture and the second order economic benefits for rural areas, and with that what the implications for recreation and tourism are. Therefore, one assumes that if that agriculture is withdrawn the knock-on effects would be negative. The evidence base is in relation to the positive effect of agricultural activity and agricultural landscapes on tourism and the attractiveness of rural areas.

Q204 Lord Livsey of Talgarth: I want to ask you a very specific question. It seems to me that evidence is very sparse in some European countries. Specifically, the Central Massif of France has been abandoned for some time and yet we have very little evidence of that. In fact, it has had a socio-economic impact as well. You have only to drive through it to see it. Have you done any work on that and have you got out of the French government exactly the amount that has been abandoned and what the impact of that is?

Dr Cooper: Personally, no, I have not done any research into this area specifically, but, to refer back to the JRC study, France was obviously one of the three countries where abandonment was studied, and they came up with this figure of two per cent. I think part of the difficulty is with the data we are using to measure abandonment and that is a really big problem. The extent to which you can capture this sort of small-scale abandonment through land cover data and through the Farm Structure Survey data is hampered by the fact that it takes quite a long time for the data to catch up. If you are looking at using aerial photography, for example, first of all, the snapshots are taken once every ten years; there was one in 1990 and one in 2000, so the frequency with which you are picking up land use change is slow.

Q205 Lord Livsey of Talgarth: Excuse my interjecting, but you are only getting a marginal increase there whereas there is a very large area which before the time phase that you are using was already abandoned.

Mr Baldock: That is true but I think abandonment slowed down in some parts of Europe once direct payments came in. We have to stress that abandonment is a dangerously black and white term. If you go to the dehesas or somewhere in central western Spain there are very large areas of very light land management and you end up with a situation where the number of livestock might be steady or declining but they are kept more and more around the farmhouse and not taken out to the rest of the land. The rest of the holding is nominally in production because the farmer is making a claim on it, and they would be mad not to, but actually the day-to-day management has shrunk down to part of the holding. When you drive through the countryside you can often see areas, “Oh, that is abandoned”, but it would not show up statistically as abandoned because it is still part of a holding which is making a claim, even though within that holding there might be quite varied levels of management going on. On a very large holding, like in parts of Spain, that could make quite a big difference, and, of course, you may also have totally part-time holdings where nobody actually lives on the farm any more but statistically that will still be in production. Certainly in central France you can see this. That does not mean when we come to look at our statistics that no claim is being made on that farm, that nothing is happening, so, as Tamsin was explaining, getting to the bottom of all this is a little bit more difficult than it can look.

Q206 Viscount Ullswater: Dr Cooper, I am interested in the studies that you have made about this rather difficult term “land abandonment” and I am just wondering where extra extensification becomes land abandonment apart from the ones that I think you have just explained as to if livestock are held around the farmstead and the outer areas are left, but what about areas which have extensive sporting interests? I am talking about, for example, the

moors in Scotland, Yorkshire, Cumbria, where perhaps there was a tendency to over-graze at one moment and harm the sporting side – I do not know; deer shooting in Scotland as well – and now, because of the amount of sheep that have been taken off the hill, that has improved the sporting in some instances and maybe had a bad effect on increasing the number of deer in others. Do your studies look into that sort of land use as well?

Mr Baldock: You are absolutely right that you will get mixed land use in some parts of Europe. We have more difficulty in getting data on this because where there is a sporting interest or a primarily recreational management, this, of course, does not show up through any normal agricultural data or statistics. We discover this when we are talking to people and just through what we read in the day-to-day literature, but we cannot quantify that very easily. In relation to abandonment that may be another explanation why a limited amount of agricultural activity may be tolerated on a holding; it may be welcomed by the landowner because they may have different objectives than simply farming. We do not have any comprehensive way of telling how large-scale that area is. Certainly in parts of Spain there are large areas which are managed for sporting purposes but I would struggle to tell you how big that was. In central Europe you will not see very much of that. We do not really have a good sense of how big an issue that is on a European scale.

Q207 Chairman: Is there a danger with LFAs that you have given an incentive to persist with agricultural activity in an area which really ought to be abandoned? Take climate change – southern Europe, parts of Spain, drought. Why keep on pouring money into trying to maintain agricultural activity in some parts of southern Spain where the game is up, really?

Mr Baldock: We would say that you do not want to support agriculture everywhere inside the designated LFA because, you are right, there are some areas where it is not suitable for one reason or another. There are quite large bits of Europe where there are very thin soils and you certainly would not want to be continuing to cultivate those soils in any way.

Q208 Chairman: You do not have a mechanism for saying, “This has got to the stage where we will not do LFA payments”?

Mr Baldock: I think we would say that ideally one should be zoning areas more than we have been able to up to now. The UK is one of the more advanced countries in thinking about this in relation to woodland and afforestation. In other words, we do have some means of trying to say, “We would like to see woodland here and not woodland there”. The same principle in a way applies to the cessation of agricultural activity and effects on the environment or something else. There are some areas where we really do need to keep the agriculture for public benefit purposes and others less so but we do not have a fine mesh at a European level which allows us to say that. Of course, these are quite normative decisions. Not everyone is going to agree. There is not a great scientific matrix that one could apply to get the right and wrong answers. People are going to have different ideas about this.

Q209 Baroness Sharp of Guildford: Turning the question on its head, have you come across evidence to suggest that LFA payments have prevented farmland abandonment, and to what extent can the effect of the LFA payments be separated from the direct payments under Pillar I?

Dr Cooper: We approached this question in our report in three stages. The first stage, which was what we were discussing previously, was the extent to which agriculture was being maintained in the Less Favoured Areas, and the report showed that, based on the data that we were using, it was. The second stage in answering this question was to calculate what proportion of the area within the LFA was receiving a compensatory allowance or a payment because those areas, or that proportion of land that is not receiving a payment, obviously is continuing in agricultural production irrespective of the payment. What the report shows is that across different Member States there is a huge variation in the proportion of the land that is receiving a payment. In some countries it is as high as 90 per cent, so there is almost

complete coverage of agricultural land within the LFA that has received a payment. In other Member States it is much lower. It is as low as -----

Q210 Chairman: Sorry: can I just jump in a minute? You keep saying things like “in some countries”.

Dr Cooper: Do you want me to be more precise?

Q211 Chairman: Yes, name them. I will not say “name the guilty”!

Dr Cooper: For precision, in countries like Ireland, Luxembourg and Finland over 90 per cent of the total hectare area receives a payment. We have also done a calculation in relation to the number of farms, but I think it is helpful to do it in hectares, and these figures are specifically for ‘Other’ LFAs. This is not the whole LFA area; it is for this particular category of LFAs. For those countries such as France and Portugal it is less than 20 per cent of the total area receiving a payment. That led us to conclude that in those countries the payment was not essential for the continuation of agricultural activity. The third part of the analysis was to look at what contribution the payment made to net farm incomes. Again, we found variation across the Member States and this seemed to follow in very broad terms a north-south variation. In countries such as France, Germany, Luxembourg, Ireland and the UK the contribution of the LFA payment to farm income was in the region of 20-28 per cent, so roughly a quarter of the farm income. In the southern Member States it was five per cent and less, so a much smaller proportion. We again found differences not just between Member States but also in terms of farm type, and the dependency of livestock farms on the LFA payment tended to be higher compared to other farming systems. What this led us to conclude was that, even though the contribution to the farm income was relatively small in some cases in some countries, the effect may be significant, given the narrow profit margins under which some of these farmers are operating. The final point to note was that farms

within the LFA, those farms that are beneficiaries of the payment in some Member States, such as Italy and Austria, also had the opportunity to access other rural development measures, so they were eligible to receive higher levels of investment aid, for example, because they were a Less Favoured Area beneficiary, so there were some spin-off benefits in terms of other measures that they enjoyed because they were beneficiaries of the payment. The picture is quite a complex one.

Q212 Baroness Sharp of Guildford: We were very intrigued to see in your report that Luxembourg was among those with 90 percent.

Dr Cooper: Yes.

Q213 Baroness Sharp of Guildford: With France you were saying that actually when you looked at the area covered it was only 20 per cent of the LFA where payments were actually made, and yet it ends up as being one of those where the payments become quite significant. I find that an interesting statistic because one would have assumed that we fall into the middle of this category but LFA payments are relatively significant here in the UK, particularly perhaps in Scotland and Wales.

Dr Cooper: The dynamic that has played out is in part a choice in terms of programme design and the minimum and maximum level of the payment is stipulated in the regulation, but there is obviously a range in terms of the level of payment that can be made to farmers. With a certain amount of money there is obviously a choice between distributing it quite broadly across a large area of the farming population within those areas or to have higher payments which are targeted at fewer farms. The situation in France is that the payments are higher but the number of beneficiaries is lower.

Q214 Baroness Sharp of Guildford: How about the second part of the question which is the link up? The conclusion as I understand it is that at the margin you think the LFA payments have actually been significant in terms of stopping land abandonment but equally you have now got a situation under the direct payments of Pillar I in which you have got some income coming through to these farms anyhow.

Dr Cooper: What the analysis of the report showed was that what was supporting farming and farmers in these areas was a bundle of different support mechanisms; that the direct payment was important alongside the less favoured area payment, alongside other rural development support that they were receiving. We did some calculations which took account of the dependence of farms within the LFA on a total bundle of subsidies, which includes the direct payment relative to farms outside the less favoured areas. What this showed was that the dependence of the LFA farms was much higher on subsidies, the whole bundle of subsidy within the LFA. The conclusion that we take from this is that whilst it is difficult to disentangle the relative effect on the maintenance of agriculture between the direct payment and the less favoured area payment, this does not necessarily mean that these payments are substitutable because they are contributing to slightly different objectives. The direct payment has a degree of environmental conditionality attached but it does not have specific land use and land management objectives whereas the LFA payment does, so they are both important but they are not substitutable.

Q215 Baroness Jones of Whitchurch: So far we have been looking at the different payments and how people respond to the payments that they receive, but you have already indicated a little bit earlier that farmers are not necessarily rational when it comes to that; I think you said that they carry on having livestock even when it is not economically viable for them to do so. Have you done any research about what are the factors that would persuade someone to carry on farming because it might not be, necessarily, because of the financial

incentive, it might be some other form of incentive that would keep them on the land. I just wondered whether there was anything else in terms of policy directives that we could do that would encourage that – it does not necessarily have to just be a rather complicated financial calculation.

Dr Cooper: This is an important point. We are always saying that it is important not to interpret farmer behaviour through an economically rational perspective or model. There are lots of studies that indicate why farmers or certain types of farmers continue to remain in farming. There are historical reasons, there are family reasons, there is the attractiveness of the countryside, there are all sorts of cultural reasons for the continuation of farming linked to a sense of place, linked to the quality of life that is derived from being in the countryside.

Mr Baldock: To add to that we do know that people are also very reluctant to part with their land, there is an attachment to land and to the lifestyle as Tamsin says. This is not totally economically irrational. Land is a big economic asset as well as a family asset for a lot of people and we also know that family farm incomes are often quite a lot higher than you would think from the data on agricultural income; you can go to a lot of places in Europe where the family can survive despite the very low level of income coming through from the agricultural activity because of the mix of activities and because there might be different people working in different sectors of the rural economy, money might be coming from abroad, from people who travel. A family home can therefore extend to an agricultural unit in all sorts of different ways and different settings, so I think it would be a mistake to dismiss the economic element there – income is not all through agriculture but at the same time you are absolutely right that there is a whole suite of issues which are more emotional, cultural and social if you like. Where we pointed out earlier on that the LFA measures changed their focus to become more environmental of course there are other rural development measures which are much more intended precisely to keep people in rural areas, to keep a more dynamic (whatever that is)

rural economy. It is not the idea that LFA has purely become an environmental measure or that socio-economic interventions have disappeared, they have just changed away from that same relationship with agriculture.

Chairman: I suppose a phrase from Marx comes to mind, but I do not think we will use it.
Lord Livsey.

Q216 Lord Livsey of Talgarth: Thank you for making those points; it is certainly my view that the Welsh language would not survive without LFA, but that is another question altogether. In your evaluation report you highlight the convergence between single farm payments under Pillar I of the CAP and LFA payments under Pillar II which have become area payments conditional on land management obligations. You point out that meeting cross-compliance conditions is potentially more onerous for farms in LFA areas, yet single farm payments are often lower in those areas due to low historic yields. You suggest that LFA payments should be used to help plug the shortfall, but in the longer term could there be a case for attacking the root of the problem by reviewing how farms in disadvantaged areas fare under the single farm payment. If I could add to that, you have covered quite a lot of this territory already, but if one is looking for solutions perhaps is there a case for amalgamation of the two payments into one LFA payment with cross-compliance involved?

Mr Baldock: That was a short question, thank you, my Lord Chairman.

Chairman: We do write essays.

Q217 Lord Livsey of Talgarth: I did not write the question; I did the question at the end.

Mr Baldock: One way we could perhaps start to reply to that would be to spend a minute on cross-compliance and the argument we are making. We have, incidentally, done another evaluation for the Commission on cross-compliance which is still at quite an early stage of implementation in Europe. The reasons we are saying that cross-compliance tends to be more

onerous for farmers in the LFA are threefold: first of all their margins tend to be lower and they are not such profitable farms for the most part; secondly, there is a preponderance of livestock farms and, as it happens, both types of cross-compliance conditions – both what we call the SMRs, at the mandatory level, and the good agricultural and environmental conditions (GAEC) tend to bear slightly heavier on livestock farmers than they do on arable farmers, it is just the way it has turned out, I do not think that was the intention particularly. Thirdly, because these farms in the LFA tend to be more extensive they are much more likely to be experiencing scrub invasion; I go to Wales a lot and you see an awful lot of bracken coming up the hill, so there are much more likely to be breaches of good agricultural and environmental conditions in terms of not maintaining pasture and so forth than there would be in a more intensive area where that is very much part and parcel of everyday agriculture management, so we do see LFA farmers as being quite disadvantaged in a sense by this. When we then look ahead to how some future architecture of policy might work our perspective would be we do want to maintain farming in these areas, we do need therefore to maintain some incentives to do so which are appropriate. The fact that the farming in these areas is more difficult because of the various constraints we have referred to, means that we do need to address those constraints. We have seen in some sorts of future architecture quite a distinctive role for LFA-type payments because not only do we want agriculture which maintains public good and public benefits in a broader sense, but we are aware that there is a very particular slice of the European agricultural estate, if you like, which does have in general an environmental value and in general does experience a whole series of handicaps. That is different from the role of the single farm payment which, as it now stands, is essentially a broad brush compensation for withdrawal of certain historic payments which were made on a different basis, and therefore the single farm payment is not in any way calibrated, targeted or adjusted to the sorts of conditions that we have got in the LFA. On the

other side of the coin, looking beyond the LFA, we would see a role for a more precisely targeted, more administratively finely tuned agri-environment type of payment where we are asking farmers to follow this, that and the other condition quite specifically in a more contractualised environment and therefore they are getting paid for that. They are doing more than is normal farming whereas in the LFA we are talking about broadly keeping the system going as opposed to interfering with it. In the future you could say all this should be in Pillar I or Pillar II of the CAP and we could rearrange the way those pillars work, but we do see the LFA as relevant to a future European policy where these public benefits are an important strand.

Q218 Lord Livsey of Talgarth: Could I just follow that up? In that context if we look at the lifetime of the single farm payment it is said that it may in fact cease in 2013. That is certainly the view of some governments and even perhaps some elements of our own. If that happens then what you have just said becomes more and more relevant, I would think. Would you agree with that?

Mr Baldock: Yes, and we would be slightly surprised to see the end of the single farm payment.

Lord Livsey of Talgarth: So would I, but quite a number of people have a different view.

Q219 Chairman: Pleasantly surprised or unpleasantly surprised?

Mr Baldock: We do think there is a need for targeting agricultural policy in a new way in the future beyond 2013 to focus on what we want and we see a role for a measure like the LFA, modified potentially – which we can talk about – inside a spectrum of support.

Q220 Earl of Dundee: Should we take these fairly obvious focuses, firstly that of public good and secondly that of the hazard of abandonment. Do you think that common

biophysical criteria as currently put forward by the Commission are sufficiently precise and accurate to serve those focuses?

Dr Cooper: As we are all familiar with, there are four clusters of biophysical criteria that have been proposed and they replace 32 currently existing criteria for the classification of ‘Other’ LFAs. At the moment we have a very broad range of criteria relating to productivity of land, economic performance and rural population issues, and we are combining them into four consistent criteria. We think that these biophysical criteria are quite accurate proxies of natural handicap. What we are not so convinced of is the extent to which they therefore serve as proxies for those areas that are under greatest threat of abandonment because natural handicap is just one of a whole confluence of drivers that precipitate agricultural abandonment, and we are not convinced they are sufficiently precise to identify those areas where environmental benefits are most prevalent.

Q221 Earl of Dundee: But precise or imprecise?

Dr Cooper: We think they are precise for the identification of natural handicap, but to extend that therefore to the identification of areas where environmental benefits are prevalent within that, we do not think they are sufficiently precise.

Q222 Earl of Dundee: But effective or otherwise, and hopefully to a high degree any way effective. Nevertheless, in so far as the fine-tuning of such designations will always remain desirable what degree of discretion would you leave or be inclined to leave to Member States?

Dr Cooper: We welcome the fact that there is a broad European framework, we think that is important. What we have questions about is the availability of data to fulfil these criteria. We have recently done a report on the conservation of agricultural soils across Europe – soils is one of the key criteria to which we are referring – and the availability of data on these sorts of soil characteristics is not consistent across Member States, so there are issues there. We

welcome a common framework and in terms of the flexibility to the Member States we think that these biophysical criteria and the thresholds that relate to the biophysical criteria obviously will be regionally and nationally specific and will need to be defined by the Member States. In terms of having a whole suite of additional criteria we are not convinced necessarily of the value of that.

Q223 Earl of Caithness: On biophysical criteria – continuing from Lord Dundee’s point – do you agree that the biophysical criteria as set out in the Joint Research Centre’s report do not represent the natural disadvantages of cool, wet maritime climates that we have particularly here?

Mr Baldock: That is probably a fair comment. I have to say we have not had the opportunity to go over the JRC proposals with a fine toothcomb and we have not been involved in some of the meetings that have been taking place between the Commission and Member States, so we would be a bit reluctant to go into too many details. The danger of these biophysical criteria is in looking for some things that work at a pan-European level; there will need to be some fine-tuning around the edges.

Q224 Earl of Caithness: Unless the proposals from the Commission are changed Britain stands to be disadvantaged.

Mr Baldock: We have not actually got a proposal from the Commission yet, as I understand it, we have got this report from JRC inside the consultation document with a number of criteria, but the Commission has not actually yet said these will be the new criteria. We would want to have a look at the exact proposed criteria before we answered that question.

Q225 Chairman: Could I go a little bit further on that because it does seem that the criteria are discrete criteria, you either possess it or you do not possess it.

Dr Cooper: Yes.

Q226 Chairman: Surely another way of looking at it is actually to develop an index so that you have a little bit of X and a little bit of Y, you weight it and you can then locate that field almost based on where it ranks on the index.

Dr Cooper: That is certainly the existing system in countries like Germany, for example. They have got a complex index system that is currently in place which is based on similar sets of criteria, but an index system requires quite sophisticated data sets to support it and again it is not clear from the proposals of the JRC exactly how one would combine these different indicators and these quite different criteria.

Q227 Chairman: It would make it a more appropriate way forward to deal with the cold wet maritime climates if you get a bit of cold and a bit of wet that is recognised as giving you a sufficient disadvantage, rather than possessing one discrete characteristic.

Mr Baldock: Yes, that is a fair point. Looking at it from the Commission's point of view they have always got this difficulty in trying to find some kind of scientific bottom line. These criteria that the JRC have come up with have been derived from FAO criteria in turn and they are not going to fit all the circumstances in Europe. We would certainly agree with Lord Caithness that there are very genuine disadvantages in the UK which one would not obviously capture by an excessively inflexible system.

Earl of Caithness: Can I move from biophysical on to eligibility?

Chairman: Does anybody else want to come in first?

Lord Brooke of Alverthorpe: The moment has passed.

Q228 Earl of Caithness: On eligibility criteria the Commission wants to provide a framework. What sort of criteria would help identify the farms most at risk and where the

benefits of continued agricultural land use are most evident? Do you have any thoughts of what types of farms and farming practices should be excluded?

Mr Baldock: We feel that if you are going to pursue the objectives of the regulation in a systematic way – to go back to this point about maintaining the countryside and sustainable farming – then the criteria should be to support those objectives; you have to work from the logic back to think through what kind of farms we want to support and which ones really are not needed to maintain the countryside, or are not sustainable or do not need to be supported particularly through this measure. The kind of measures or criteria that we would start to look at would be those that are able to distinguish more extensive farming systems and to exclude certain forms of intensive systems. We think there is particular value in trying to develop criteria which are able to distinguish those features of the countryside in quite a broad sense, so meaning land uses which are desirable from an environmental point of view, that would include semi-natural vegetation, it would include some of the features of very extensive arable systems like fallow, for example, and very dryland arable systems, terraces and things like that, aspects of the countryside which we are actually trying to maintain. We would also accept that that would require, in terms of distinguishing between the extensive and the more intensive, some kind of measurements, some kind of threshold which might be connected with stocking densities in a livestock system, but we would not want to see a system whereby you were trying to replicate agri-environment through these criteria, so setting very high and demanding standards for farmers through an LFA. We would want to do that through paying them more money through the agri-environment measure, so this is quite a difficult area in which to get these eligibility criteria right. The logic would be that if you have an area such as Ireland, for example, where nearly all farms in the LFA at the moment do receive a payment, and also in Luxembourg, some of those farms would not receive a payment under our model because they would be too intensive – they might be irrigated – so some of them

would drop out. On the other hand, if you go to somewhere like Spain we think that at the moment a lot of these farms which do meet all these criteria are not getting any payment because of the way that the Spanish Government operates the system. To, if you like, align the actual implementation of the measure with the objectives it would require some changes.

Q229 Earl of Caithness: Can I follow that up? Do you think there ought to be two levels of criteria? Ought there to be a European level and then allow Member States to add their criteria underneath that?

Mr Baldock: We do believe there needs to be some European-level criteria and also a need to stop the Member States introducing some sorts of criteria which are not required and we do not think are very appropriate because they are totally socio-economic for example where you have to live within ten miles of the farm – things which do not belong in the regulation. We want to be able to prune out some undesirable criteria but we would accept, yes, that you need a second layer because you cannot settle these eligibility criteria at a European level; you need some guidelines and you need some transparency and scrutiny so that Member States would then develop their own second layer which would need to be looked at fairly rigorously in my view.

Chairman: Let us go on with Viscount Brookeborough because he is going to attack it from the other end and talk about harmonisation, which is the other side of the coin really.

Q230 Earl of Caithness: Could I just have one more question? If you have a European level and a Member State level are you not going, in 20 years time, to be in exactly the same position as we are now where the EU is off thinking on one plane, the Member States are still on another plane, you are going to do another report that says this has all got to be revised again?

Mr Baldock: It is a matter of trying to give the Member States a firm set of principles under which they can operate eligibility, rules without over-constraining them. This is not easy in a union of 27 countries, you are right, but we could do better than we are doing now; that is definitely possible.

Q231 Viscount Brookeborough: You have verged on the same subject as harmonisation but what degree of harmonisation of eligibility criteria would you regard as appropriate, or indeed to what should we aspire and is it possible, accepting the information which is currently available in most countries?

Mr Baldock: We think there needs to be some level of harmonisation, both for the negative reason that we think certain types of eligibility criteria should not be permitted and for the positive one that we think it would be a more effective measure if the eligibility criteria fitted within certain principles. On the other hand, we have not produced a set of eligibility criteria which I could present to you and defend before you, and it is not particularly easy to do – we would acknowledge that. There are some things where we would be very clear: certainly all farms with a significant percentage of semi-natural vegetation are going to be meeting biodiversity criteria however you look at it. Something like stocking density is a little bit more difficult, we would say there has to be a maximum stocking density which is not too demanding; that would have to be regionalised and it would not be entirely straightforward. Most forms of irrigated land you would want to take out – unfortunately I have to use the word “most” because there will be some circumstances where more traditional forms of irrigation are actually very much part and parcel of the LFA. One would need to commit oneself to a process of developing those eligibility criteria with quite a lot of expertise around the table. It also means the Commission would need to be quite vigorous in appraising and looking over those criteria which requires a certain amount of effort at a European level which has not necessarily been associated with the LFA.

Q232 Viscount Brookeborough: How much willingness have you found in various different countries to move towards or to be happy to move towards a form of harmonisation, or are these different nations protecting their own pot and saying “We are not going to go further down this road; we want to run it as we have always run it?”

Mr Baldock: There is quite a lot of reluctance to accept a higher level.

Q233 Viscount Brookeborough: Can I ask a quick question about woodland? I know for the last 30 years there has been encouragement of really planting woodland on less favoured areas; how do you think that this fits into the future? We are so far under being self-sufficient in timber, with the lowest level of forestation within the EU, do you think we should continue to encourage woodland on less favoured areas and do you consider it to be agricultural in itself because, quite clearly, as a form of agriculture it is entirely different from the others in that you can put a cow in the field or a sheep in the field or dig it up with pigs, and it can revert fairly quickly. Once you actually put woodland on it, it does to all intents and purposes destroy the area completely as far as normal agriculture is concerned.

Mr Baldock: First of all many Member States do not encourage afforestation or woodland on less favoured areas; some do and some do not, there are quite large differences in policy on that inside Europe. Our view would be that there certainly is a role for more forestry in some parts of Europe, but that has to be balanced against the fact that we are quite dependent on highly extensive, agriculturally managed farmland for a lot of our biodiversity. We are losing biodiversity right across Europe, we have not succeeded in reversing the decline in biodiversity which is meant to be a European target for 2010, so we are very well aware that it is these extensive farming systems which are fairly critical outside the key nature conservation areas for maintaining that, so having a blanket forestry programme could be in exactly the wrong places in terms of biodiversity. This is one of these things where we have to be rather specific so that there is the right woodland in the right place, rather than a sense of

a blanket rolling out of one land use or the other and, of course, as we move into a carbon dominated world our balance of judgment in some of those places will also be different.

Q234 Chairman: Can I ask finally on this area of eligibility criteria and the discretion of the two-tier model that Lord Caithness mentioned how important are single market considerations in limiting the discretion that should be given to Member States?

Mr Baldock: They are in principle quite important but we have lived with rather different rules between Member States for quite a long time, and this of course applies in a large number of other areas of policy we could mention. So there is an outer limit at which the level of difference becomes intolerable but, being quite pragmatic about that, Member States are prepared to live with significant differences. If we find that there is a much smaller level of subsidy going into agriculture after 2013 I think the issue could become rather more sensitive because we have been in an era of relatively large payments and in future we may be on a rather more limited budget and people may be rather more sensitive to actually looking at exactly how other countries are supporting their farmers.

Q235 Baroness Jones of Whitchurch: We have been looking at the inconsistencies and the link between the less favoured areas and the payments that are made. In your report you said that there was a need for some fresh thinking on the payment formula; do you think that the proposals we are now looking at about additional costs and income foregone relating to the handicap will affect that fresh thinking, or do you have some other proposals on this?

Mr Baldock: If we had more clear-cut measures of what disadvantage was, if we had clearer criteria for the level of disadvantage, it would be easier then to calibrate payments against some more objective sense of precisely what the economic impact of disadvantage was on a farm; so we do see more precision in that area helping to get more consistency in payments. Secondly, we would say that the original requirement on Member States to provide

appropriate compensation and not to over-compensate was quite vaguely worded and this new formulation, although pretty broad brush – talking about additional costs and income foregone – does provide if you like a framework whereby the Member States might present their calculations in a slightly more consistent form and be slightly more easily cross-examined by the Commission in presenting this data. So it certainly is not a guarantee that we are suddenly going to get a completely consistent or brilliantly calibrated set of payments, but if one looks at a slightly revised approach to the LFA we could reduce some of the level of inconsistency, yes.

Q236 Baroness Jones of Whitchurch: You were talking earlier about the grant being modified in some way as part of a broader spectrum of other grants – I cannot remember the exact words you used – but would you still have something called an LFA payment or would it just be absorbed into one of the other grant options?

Mr Baldock: That is an interesting point. For the moment there is a value in having something called a less favoured area payment because it does have a clear set of objectives, and for that to disappear into this morass of interpretations of the single farm payment could be rather dangerous. If we are building up, perhaps, a new architecture for payments to farmers beyond 2013 it would be quite helpful to keep a few of the building blocks where there is a reasonably coherent objective and we know what we are trying to do rather than to submerge those. In the longer run one can see quite a lot of different ways of actually rearranging payments, where this might be a component in perhaps a more comprehensive kind of support scheme rather than being a freestanding thing on its own – it might be one element in a multi-tier type of system. We are not of the school of thought that the LFA should be swept away and then we start again with a totally new one.

Q237 Viscount Ullswater: In your document written in 2006 you found that payment rates across and within Member States have varied significantly – in fact you state that in 2004 there were 156 payment rates varying from £10 per hectare up to £800 per hectare. Do you see any changes envisaged as part of the present review? What you said was so many had been built up on various different paths and there was path dependency; is that likely to change?

Dr Cooper: The answer to that question is quite complex, like many of the responses. There is a huge diversity of payment rates currently in operation and we found in the report that they are calculated in a whole variety of different ways within four broad criteria that are set out in the regulations. One of the bases for the calculation of payments is the relationship to the severity of handicap and if you make the measurement of handicap more consistent in relation to these four biophysical criteria then the link between the severity of handicap and payment inevitably becomes more transparent, so in that respect the proposals go some way to addressing this diversity of payment rates. It was also linked to eligibility criteria and we found that there were certain top-up payments available for some Member States to adhere to different eligibility criteria and, therefore, as soon as you have got flexibility in eligibility criteria across Member States that increases the variation. In terms of the current programming period if the new scheme begins in 2010 as stipulated in the regulation Member States will be operating within a fixed budget and so the flexibility to radically change payment rates for this programming period up to 2013 are quite constrained, so to the extent that there will be an immediate path dependency with existing rates, that is probably quite inevitable. What happens beyond into the next programming period is that there could be more of a break with past levels of payment. That said we have seen over time, over the history of the measure, changes in its objective, changes in the designation criteria, and still payments have followed certain trajectories.

Q238 Viscount Ullswater: It is one thing that the Court of Auditors paid special attention to and obviously if it is going to improve then something must be done because, as you indicate, there are lots of rather quirky little things as to why payments vary even within one scheme.

Dr Cooper: One of the advantages of these clear biophysical criteria is to establish this transparent link between the payments and the severity of handicap, and I think that helps.

Q239 Earl of Caithness: I want to be clear in my own mind on one thing and ask you another question. So far as the LFA payment is concerned you believe that that should only be for agricultural operations and therefore anything else environmental should be covered by a different payment scheme. If you want to tighten the classification and eligibility criteria should anything be done for the farms that just fall outside that boundary, because there will be a lot of marginal farms that exist on LFA or are helped to exist on LFA now who will be taken out. Should something be done to help those people as part of compensation or as part of a broader look at farming?

Dr Cooper: In response to the first part of the question we do agree with the objectives that are set out in the regulation in terms of this is about the maintenance of the countryside through the maintenance of support for the continuation of certain types of agriculture. With the introduction of a new set of classification criteria, coupled perhaps with some principles defining eligibility, there will be inevitably some redistribution and the beneficiaries of the payments may change from the existing pattern of recipients. You say some may fall out but in some Member States as we discussed earlier, like in Spain or some of the other southern Member States, there may be some farmers that fall into the net, so there is a two-way dynamic to this. This is always one of the problems in terms of developing targeted schemes, that there is inevitably at some point a cut-off point, and some farmers fall within it and some farmers fall without; whether that is a spatial designation or another form of targeting there are always these problematic boundaries. What we think about the future of LFA policy is

that we support its continuation within a broader framework of support for farming, where there is complementarity between the different objectives. For those farmers that fall outside it, therefore, there will be other instruments available within a more coherent policy framework.

Mr Baldock: If I could just add to that, some farmers would fall out of it – you might say that a number of dairy farmers would fall out of it for example. What would need to happen in that situation, if you did see a lot of losers from the redistribution, is that you would need to have arrangements which might be tapering changes over time – I do not think anyone would really argue for a lot of sharp shocks to the system – and also one would want to see how other bits of the rural development regulation were playing out. For example, the Germans have put great emphasis on supporting dairy farms in the LFA as part of the recent Health Check on the CAP and it is not clear to many of us exactly what that is going to mean, but you could see, for example, that that kind of emphasis could actually compensate some farmers coming out of LFA. One would want to see some real numbers, therefore, and see whether negative impacts were particularly concentrated in certain sectors, but having a brutal change in policy is not desirable; one would want to see some tapering.

Chairman: You do not want a system where everybody gets a little bit; that is the last thing we want. Thank you very much, that really was exceedingly valuable to us and the great thing was the clarity of what you said in your evidence; that will be very, very helpful so thank you very much indeed.